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U.S.-Japan Trade Dialogue Continues

Five days of subcabinet-level talks in Tokyo suggest that the U.S. trade agenda with Japan remains as full as ever and that the two sides remain committed to finding negotiated solutions. Bruce Smart, under secretary of Comm rce for international trade, and Michael Smith, deputy U.S. Trade Representative, led the U.S. delegation in talks with the Ministry of International Trade and Industry's Vice Minister for International Affairs Makoto Kuroda January 27-31.

The speech may have been the chief executive's most comprehensive summary of his philosophy and specific policy objectives since taking office. Although some reactions to it were negative -- the Yomiuri Shimbun, Japan's largest daily, mildly objected that the speech was too vague -- it represents a thorough summation of his objectives for the Diet and his perception of Japan's role in the world. The reform theme was the unifying element of the address and in this respect it is significant that he referred to international issues at the outset. One is left with the impression that just as the Diet has restructured former government corporations to make them conform to international trends, Mr. Nakasone would like to see his countrymen reform their attitudes, self-perceptions and institutions to engineer a larger role for Japan in the world.

Michael W. Chinworth

Japan's 1986 Trade Figures: Has The Surplus Peaked?

Finding something good to say about Japan's 1986 trade figures would have tested the resourcefulness of the most experienced public relations firm. After all, just two weeks before the Reagan administration was expected to announce that the U.S. trade deficit had hit a mind-boggling $170 billion, the Ministry of Finance revealed that Japan had run up an $82.7 billion surplus -- $36.6 billion more than the politically explosive 1985 number (see Table 1). To make matters worse, exports, which had increased by a slim 3.2 percent in 1985, jumped 19.1 percent to $209.2 billion (f.o.b.), while imports slipped 2.3 percent in 1986 to $82.7 billion (c.i.f.) after declining by 5.1 percent the year before.

Arguing that the dollar figures were skewed by the yen's 25 percent appreciation during 1986 had limited public relations value since even in yen terms Japan chalked up a record-breaking surplus for the fourth straight year (see Table 2). It is equally difficult to make the case that Japan's trade surplus on a quarterly basis has peaked. But the run-up in the yen's value since September 1985 is clearly moving the export and import volume numbers in the right direction.

For starters, the volume of exports declined in each of 1986's four quarters, capped by a 4.2 percent drop in the October-December period (see Table 3). For the year as a whole, overseas shipments corrected for price changes were off by 1.4 percent -- the first drop since the worldwide recession of 1982 curbed exports. More importantly perhaps, the volume of imports expanded by a strong 13.3 percent last year even though the economy was just muddling along and deliveries of crude oil, which makes up more than one-third of the quantity index, fell by 3.6 percent. Behind this expansion, Nakasone administration officials were happy to point out, were greater purchases of foreign manufactured products -- up by nearly one-fourth in real terms after a scant 1.1 percent increase in 1985.

Finding the same thin silver lining to the numbers on Japan's 1986 trade with the United States was hard. At $51.5 billion last year, the bilateral trade surplus was $12 billion more than in 1985 as exports climbed 23.3 percent to $80.5 billion while imports expanded by a more moderate 12.4 percent to $29 billion (see Table 4). Moreover, whether measured in yen (see Table 5) or dollars, the quarterly surplus was still expanding in 1986's last three months even though the comparable overall figure had seemingly reached a plateau. Therefore, while Japan's surplus with all countries is likely to peak during

the current quarter, it will probably be the second half of 1987 before a turn-around is apparent in the bilateral black-ink entry.

Susan MacKnight

Table 1: Japan's Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1982	$138,831	-8.7%	$131,931	-7.9%	$6,900
1983	146,928	5.8	126,393	-4.2	20,534
1984	170,114	15.8	136,503	8.0	33,611
1985	175,638	3.2	129,539	-5.1	46,099
1986*	209,164	19.1	126,498	-2.3	82,666
1985					
I	38,503	-1.3	32,513	-5.7	5,991
II	43,748	0.6	32,094	-7.0	11,654
III	43,909	2.7	31,239	-8.1	12,671
IV	49,478	10.3	33,693	0.5	15,785
1986					
I	45,520	18.2	33,060	1.7	12,460
II	53,178	21.6	31,485	-1.9	21,693
III	54,786	24.8	30,163	-3.4	24,623
IV*	55,679	12.5	31,790	-5.6	23,890

Table 2: Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1982	Y34,433	2.9%	Y32,656	3.8%	Y1,776
1983	34,909	1.4	30,014	-8.1	4,895
1984	40,325	15.5	32,321	7.7	8,004
1985	41,956	4.0	31,085	-3.8	10,871
1986*	35,293	-15.9	21,567	-30.6	13,725
1985					
I	9,898	9.5	8,340	4.3	1,559
II	11,025	11.1	8,093	2.8	2,932
III	10,591	2.4	7,534	-8.3	3,057
IV	10,442	-5.3	7,118	-13.6	3,323
1986					
I	8,678	-12.3	6,345	-23.9	2,333
II	9,121	-17.3	5,409	-33.2	3,712
III	8,635	-18.5	4,760	-36.8	3,876
IV*	8,859	-15.2	5,054	-29.0	3,805

Table 3: Change in Volume of Japan's Exports and Imports

	Exports	Imports
1982	-2.4%	-0.6%
1983	8.7	1.3
1984	15.4	10.7
1985	4.7	0.2
1986*	-1.4	13.3
1985		
I	6.9	0.6
II	6.8	-0.3
III	4.0	-2.8
IV	1.9	3.3
1986		
I	-0.1	3.7
II	-0.8	16.8
III	-0.2	18.8
IV*	-4.2	14.3

Table 4: Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1982	$36,330	-5.9%	$24,179	-4.4%	$12,151
1983	42,829	17.9	24,648	1.9	18,181
1984	59,937	39.9	26,862	9.0	33,075
1985	65,278	8.9	25,793	-4.0	39,485
1986*	80,462	23.3	28,984	12.4	51,478
1985					
I	13,346	6.8	6,771	1.3	6,575
II	16,837	9.0	6,641	-1.6	10,196
III	16,615	5.4	6,111	-9.8	10,504
IV	18,480	13.9	6,270	-5.7	12,211
1986					
I	16,706	25.2	6,275	-7.3	10,431
II	20,923	24.3	8,272	24.5	12,651
III	21,281	28.1	7,518	23.0	13,764
IV*	21,552	16.6	6,920	10.4	14,632

Table 5: Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1982	Y9,015	5.8%	Y5,991	7.9%	Y3,025
1983	10,179	12.9	5,855	-2.3	4,323
1984	14,221	39.7	6,364	8.7	7,858
1985	15,583	9.6	6,213	-2.4	9,369
1986*	13,565	-12.9	4,906	-21.0	8,659
1985					
I	3,429	18.3	1,737	11.9	1,692
II	4,244	20.4	1,674	8.8	2,569
III	4,008	5.2	1,474	-10.0	2,534
IV	3,903	-2.1	1,328	-18.7	2,575
1986					
I	3,193	-6.9	1,202	-30.8	1,991
II	3,589	-15.4	1,415	-15.5	2,174
III	3,356	-16.3	1,189	-19.3	2,167
IV*	3,427	-12.2	1,100	-17.2	2,327

*Preliminary
Source: Japan Tariff Association

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.